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RUEHKB/AMEMBASSY BAKU PRIORITY 0329

RUEHKV/AMEMBASSY KYIV PRIORITY 0070

RUEHMO/AMEMBASSY MOSCOW PRIORITY 2659

RUEHSI/AMEMBASSY TBILISI PRIORITY 0316

RUEHKW/AMCONSUL KRAKOW PRIORITY 1699

RUCPDOC/DEPT OF COMMERCE WASHINGTON DC PRIORITY

RHEBAAA/DEPT OF ENERGY WASHINGTON DC PRIORITY

RUEATRS/DEPT OF TREASURY WASHDC PRIORITY

C O N F I D E N T I A L SECTION 01 OF 06 WARSAW 001147

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SUBJECT: POLAND'S NAIMSKI TELLS DAS BRYZA KRAKOW SUMMIT

POSITIVE

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Classified By: DCM K. Hillas, reasons 1.4 b, d

¶1. (C) Summary: Poland's Deputy Minister of Economy Piotr Naimski told visiting DAS Bryza that the Krakow Summit had four important results: The governments reached a political decision that a Caspian-Odessa-Brody-Plock-Gdansk (COBPG) oil pipeline should be constructed and that an Intergovernmental Agreement (IGA be negotiated); the governments will create a permanent working group at the Ministerial level; a "New Sarmatia" company will be formed by state-owned oil companies from the countries to promote the COBPG pipeline; the next summit will be held in Vilnius in October to which other interested countries will be invited. A joint communique was issued by the Presidents of Poland, Lithuania, Azerbaijan, Georgia, and Ukraine and the Kazakhstani Vice Minister of Energy. Naimski noted that the Summit and cooperation was intended to extend beyond the COBPG pipeline to other regional energy projects. The Presidents are developing an overall strategic vision that if they share influence on the strategic level rather than only on specific projects they will have a better chance of success. The Presidents agreed that they must continue to honor Russian contracts but diversify to assist the Caspian countries in their development. During the Summit press conference, Azerbaijan's President Aliyev announced that Azerbaijan will produce enough oil by 2012 to cover the needs of the first phase of COBPG project. Naimski believes this makes it possible to start the project with Azerbaijani oil, then work on future stages with Kazakhstani oil. End Summary.

Attendance - Kazakhstan Represented

12. (C) Deputy Minister of Energy Piotr Naimska told visiting DAS Bryza that the Krakow Energy Summit May 11 and 12 was a success. The meetings went very well with a spirit of understanding between the participants that something solid on transportation of Caspian resources to Europe must be done. Participants included:

Azerbaijan - President Aliyev, Natik Aliyev, Vagif Sadikov, Nowruz Mammadov

Georgia - President Saakashvili, Nika Gilari, Mrs. Shasidze

Lithuania - President Adamkus, Mr. Navickas

Ukraine - President Yushchenko, Minister Kluyev

Kazakhstan - Vice Minister of Energy and Mineral Resources for oil & gas issues Kinov

Naimska stated that Kazakhstan's Kinov was designated by President Nazarbayev to represent him in the meetings, and fully participated in all meetings, decisions and discussions, not hesitating to take the floor. The GOP was pleased that Kinov attended, recognizing that President Nazarbayev is in a difficult position with respect to Russia.

Kinov's attendance and participation is a clear sign to Poland that Nazarbayev wants to be flexible and diversify his activities and was a signal that Kazakhstan is open for further cooperation with Poland. Naimska said that the Kazakhstani delegation indicated it felt uncomfortable about Russian pressure to conclude this agreement, and indicated a continuing interest in trans-Caspian shipments of oil and gas to Azerbaijan. Naimska compared the situation to the Baku-Tbilisi-Ceyhan (BTC) project, where Kazakhstan initially did not sign the documents, then did at the last minute. He believes Kazakhstan may join a trans-Caspian gas export project when there's something to join.

Decisions Taken in Krakow

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13. (C) The Presidents signed a joint communique - written only in English - emailed to EUR/NCE. In addition, the Presidents agreed that an oil pipeline from the Caspian to Odessa-Brody-Plock and Gdansk (COBPG) should be started. They agreed to establish a permanent working group of Energy Ministers or Ministers of Economy to work jointly at the technical level. A company named "New Sarmatia" will be formed by the national oil companies of the countries.

(Note: The existing pipeline consortium between Poland and Ukraine is named Sarmatia. End Note.) Naimska stated that this company will include Lithuania through its major investor, Polish-based PKN Orlen. Finally, the Presidents agreed to continue the discussions with a goal of having concrete results before their next meeting in Vilnius in October, to which other countries will be invited - likely including the U.S. The Presidents agreed to keep the meeting low key and did not discuss or comment during the press conference on the competing meetings in Ashgabat and Astana with President Putin.

A Broader Strategic Vision

14. (C) Naimska noted that the Krakow Summit did not merely address the proposed COBPG pipeline project, but was intended to discuss other joint projects and a wider policy toward the Caspian region. The Presidents discussed developing an overall energy strategy including both oil and gas for the region, which is based on the fact that if they work on the strategic level and not just on specific projects they can share their influence. They believe that the developing countries of Turkmenistan and Azerbaijan will develop faster and better if they have other options available than purely Russian to sell and transport their resources. While countries like Poland and Lithuania will continue to use Russian resources and honor contracts with Russia, it will be better for them to develop alternatives - such as from the

Caspian.

Caspian-Odessa-Brody-Plock-Gdansk Pipeline Next Steps

¶5. (C) During the press conference, Azerbaijani President Aliyev stated that Azerbaijan will have sufficient volumes in 2012 to fill the first phase of the COBPG pipeline - a real boost to the GOPs plans, said Naimksi. Naimski estimated that Azerbaijan could commit 8 million tons/year to the project, which would make the first phase feasible. To implement the project, the new company will prepare a real feasibility study which will include ways of attracting commercial partners to the project in the next stage. "New Sarmatia" will be started by the state-owned national oil companies but the participants recognize that not all oil is under government control. An intergovernmental agreement (IGA) will be negotiated in parallel with company formation. Construction will be started by the six national companies, but then transferred to the commercial companies in the next phase. DAS Bryza noted that there are serious questions in the industry that operating expenses make the pipeline too expensive compared to other options. Naimski responded that the GOP does not agree with the Kazakhstani contention that the pipeline will be \$25 more expensive than transporting oil through Russia to Primorsk, that's why the project needs a real feasibility study. Naimski noted that noone in Ukraine will accept losing money on the project if the pipeline is reversed and that the Brody-Odessa transit revenues must be

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covered by the revenue stream of the reversed flow line.

Naimski on the Astana and Ashgabat Meeting Outcomes

¶6. (C) Naimski shared with DAS Bryza the preliminary information the GOP had received on the Astana and Ashgabat meetings over the weekend between Presidents Putin, Nazarbayev and Berdimuhamedov. The GOP heard that President Nazarbayev did not want to visit Ashgabat with President Putin so there were separate meetings in Astana and Ashgabat. The GOP also heard that in Astana the Russians and Kazakhstanis reached agreement on CPC expansion, but the next day the Kazakhstanis said CPC expansion was still on the table. Putin then went to Ashgabat, with Nazarbayev following the next day. In Ashgabat the parties agreed to build a 10 BCM gas pipeline from Turkmenistan to Kazakhstan that will join the existing system into Russia. Naimski noted that the existing gas pipeline theoretically transits 90 to 99 BCM per year but is so old is now able to only carry 80 BCM. The announcement of the new line basically takes capacity back up to where it was. The GOP considers the announcement as purely political. DAS Bryza asked Naimski and the GOP to continue to reach out to Turkmenistan's Berdimuhamedov who is isolated and under intense pressure from Russia. Naimski replied that the GOP will continue to reach out to Turkmenistan, apparently on Saturday Berdimuhamedov said something about keeping other possible gas routes on the table - a good sign to the GOP. DAS Bryza emphasized that maintaining the political momentum is critical, although it may be difficult with Turkmenistan. We need to get Berdimuhamedov to say that he is going to send gas across the Caspian to support critical gas pipeline projects.

¶7. (C) DAS Bryza explained that Petronas controls a psa in Turkmenistan for an offshore gas field close to the Azeri-Chirag-Gunesli field in Azerbaijan that BP believes has a similar geological structure to Shah Deniz. The Azerbaijanis plan to visit Ashgabat by the end of the month to discuss potential cooperation in developing the field with the Turkmens. Azerbaijan is planning a joint Georgian, Azerbaijani, Turkmen summit in early June with a focus on hooking up the Petronas field to Azeri infrastructure and moving gas West. BP is potentially interested in cooperating

with Petronas.

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¶8. (C) The governments of Poland and Lithuania mentioned EU politics, policy, and strategy at the Summit but did not discuss them in detail as Presidents Kaczynski and Adamkus were representing their countries, not the EU. The discussion in Vilnius will include more EU policy and focus, promised Naimska. The GOP would like support from the EU for what it's doing. Asked if EU Commissioner Piebalgs will express his support for the initiative, Naimska replied that he wants to be supportive. The GOP hopes that they will be able to provide their engagement strategy with the Caspian region to the EU as input into a broader EU strategy toward their Eastern neighbors.

Hungary, Nabucco and Who's Got the Gas

¶9. (C) DAS Bryza explained that he met with Hungarian Prime

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Minister Gyurcsany and his advisors about the competing Nabucco and Blue Stream gas pipeline proposals. It seemed that the Hungarians were coming up with excuses not to do the Nabucco project but their arguments against it made no sense or were false. DAS Bryza hoped he had convinced the Hungarian PM that Azerbaijan has sufficient gas for the pipeline and that signing a long-term gas supply contract with Russia when no other alternative is available is tactically unwise. Bryza believed the Hungarians now understood the need to send clear signals of support in principle for Nabucco as a means to supply Caspian gas to Central Europe; otherwise, the entire project may unravel. The PM also stated that he wants to participate in the LNG project in Croatia as well as developing regional gas storage projects in Hungary and Serbia without Gazprom control. Naimska asked if there is enough gas from Azerbaijan to fill Nabucco. The GOP is concerned that Nabucco could end up with Russian gas from Blue Stream and that Hungary is acting as a Russian hand in Nabucco. Bryza replied that the USG supports Nabucco only as a way to transport Caspian gas to Europe, that Azerbaijan has sufficient gas only for Nabucco's first phase, and that trans-Caspian and/or Iraqi gas would be needed for Nabucco's later phases.

¶10. (C) DAS Bryza noted that the USG is trying to do concrete things to support Nabucco. The USG is working with Turkey which now seems to oppose the expansion of Blue Stream - which recently led to Russian refusal to support the Samsun-Ceyhan oil pipeline. Bryza added that the USG shares the GOP's concern about the need to work with the Hungarian government on Nabucco. For example, the USG is talking to MOL about diversification away from Russian sources, the regional LNG facility in Croatia, and gas storage. Naimska asked where the gas for Nabucco would come from. Bryza replied that OMV says it needs 8.5 to 10 BCM to make the project feasible, with 8.5 being the minimum. They supposedly have a deal with Azerbaijan for 5.0 BCM so only need 3.5 BCM more. It would be bad to get the gas from Russia unless the company could structure the deal so that Russia is only involved in the first phase - very difficult. BP's top gas marketing person for Europe believed that Nabucco's developers might slow the project down to meet Azerbaijan's gas development plans. Azerbaijan could produce 50 BCM in 2015 - 20 BCM for Azerbaijani and Georgian use, leaving 30 BCM available for sale. Nabucco's Vienna office wants to do the project now, but believes using Iranian gas is too politically risky. They are talking to the Russians but the USG has no details on the discussions.

Scandinavian Pipeline and LNG

¶11. (C) Congratulating Deputy Minister Naimska on purchasing ExxonMobil's shares in Norwegian fields, DAS Bryza asked Naimska to explain Poland's plans to construct a gas pipeline from Norway to Poland via Denmark. Naimska cautioned that the deal is not completed yet and asked that the USG keep the details confidential until it is finalized and announced. Polish gas company POGC is in talks with Energinet and Gasco to join a consortium to build a pipeline from Radvik, Denmark, South of Copenhagen to Niehoze, Poland.

The line would then connect to the Norwegian system. The GOP is now negotiating and booking capacity for the proposed 3 BCM pipeline. POGC is in discussions with Statoil about moving 3 BCM of gas from its new fields in Northern Norway through Denmark to Poland. Naimska noted that purchasing the fields positively changed the tenor of negotiations with the

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Norwegians as previously the Norwegians didn't believe the Poles would complete the project. The new pipeline should be operational in 2012 or 2013. The proposed LNG port project in Swinojuscze is also moving forward and should be completed in the same time-frame.

Nord-Stream and Cooperation with the Baltic Countries

¶12. (C) Das Bryza asked Naimska whether he believes the proposed Nord-Stream pipeline from Russia to Germany will be completed. Naimska stated that while some observers think the project will be abandoned, he does not believe it will be because too many interests are involved. DAS Bryza encouraged Naimska to participate in a regional conference being organized by the U.S. Ambassador in Latvia. The USG would like Poland to act as a regional leader in the Baltics and Scandinavia and encourage a dialogue and regional projects on nuclear power, electric bridges and interconnections, gas storage, pipelines and LNG. Naimska responded that Poland is in discussions with Estonia, Latvia, and Lithuania on all levels on wide range of projects. Poland would like to participate with Lithuania, Estonia, and Latvia on the new Ignalina nuclear power plant but wants the project to be built directly by the governments rather than private companies. The percentage ownership of each country is not important to the GOP, but is a problem for the others.

The GOP believes the new Ignalina plant is a necessary part of the electric bridge project between the Balts and Poland, and that investment in this project should remain under the control of national governments. President Adamkus is also in talks with Sweden about an electric cable from Lithuania to Sweden - similar to an existing cable between Sweden and Poland. The GOP doesn't know Estonia and Latvian officials as well as the Lithuanians. Naimska is concerned that the Lithuanian and perhaps the Latvian governments do not have full control over companies doing business in the energy sector. DAS Bryza noted that the Latvians share that concern and some companies are working with Gazprom - not because they want to but because they are afraid and feel they have no other options. It would be helpful if the GOP could be a leader in the region. Naimska replied that the Latvians are also afraid of the Poles because of their relative sizes. The Latvians are interested in regional gas storage, but the only possible supply is Russia. There is only enough gas available from Norway for current consumption of the Baltics, there is no additional gas for storage. The GOP and Lithuania are creating a working group on gas to look at long-term options. DAS Bryza encouraged Naimska to bring in Latvia to assist them in exploring all of their options and building a wall around Gazprom's investments.

Comment

¶13. (C) Despite press reports questioning the success of the Krakow Energy Summit because of the conflicting energy meetings in Ashgabat and Astana, the GOP is pleased with the results from Krakow. Not only did the governments agree to

support the development of an oil pipeline from the Caspian to Odessa-Brody and Poland, a major GOP goal, they also agreed to a joint working group and further cooperation in the energy sector. An important first step forward is achieving a shared strategic vision for moving Caspian energy resources to Central Europe, which will encourage development in the Caspian and support USG interests in the region. It is noteworthy that the Poles did not play up the anti-Russian

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card and agreed with their neighbors that they should focus on what the Summit achieved rather than negative rhetoric. We should support the Polish, Ukrainian, Lithuanian, Azerbaijani, Kazakhstani, and Georgian efforts to continue this dialogue, as well as encourage them to reach out to their neighbors, especially in the Baltics and Turkmenistan. Naimski's efforts to secure gas imports from Norway seem to be bearing fruit, despite the doubts of many outside experts.

¶14. (U) DAS Bryza cleared this cable after departing post.
ASHE